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ABSTRACT

Employee ownership affects organizational integration, organizational involvement and organizational commitment. Through a framework which predicts the effects of employee ownership on job attitudes and organizational performance (Long, 1978), the effects of conversion to employee ownership at three companies with varying degrees of employee ownership were assessed. Results indicated that the favorable effects on attitudes and performance that were predicted were most evident in the firm with the highest employee ownership, and least evident in the firm with the lowest, although in no case did egative consequences seem to occur. There is an apparent need for identifying the relative importance of various dimensions of employee ownership in relation to these variables. (Author/BN)

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Job Attitudes and Organizational Performance When Employees Own the Company

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North America is currently experiencing a resurgence of interest in and formation of business enterprises which are completely or partly owned by their employees (Whyte, 1977). Proponents of the concept view it as a potential solution to problems of worker alienation, industrial conflict, and declining productivity which are seen to afflict current industrial society (e.g. see Vanek, 1975; Derrick & Phipps, 1969). Despite this interest, and although employee-owned companies have been in existence for the past 150 years, very little theoretical or empirical attention has been devoted to the question of how employee ownership affects employee job attitudes, work behavior, and organizational performance. This paper first summarizes a conceptual framework which describes how ownership may be related to employee job attitudes, behavior, and organizational performance, in order to identify dependent variables of interest. Then, evidence from empirical research at three companies with varying degrees of employee ownership (a trucking company, a knitting mill, and a library furniture manufacturer) which bears on this question is presented.

Essentially, the framework, which is presented in greater detail elsewhere (Long, 1977, 1978a), suggests that employee ownership operates by first affecting organization identification, viewed here as three inter-related phenomena (Patchen, 1970; Rotondi, 1975): (a) feelings of shared characteristics and common goals, (b) a feeling of "belongingness" or solidarity with the organization and (c) support of the organization or loyalty (see Figure 1). These are here labelled, respectively, organizational integration, organizational involvement, and organizational commitment. Integration, the belief that good organizational performance will result in a reward to the individual, is expected to produce a favorable attitude toward performance (motivation) both directly, and indirectly through

favorably influencing work group norms. Involvement is expected to enhance perceptions of task interdependencies, and, in conjunction with integration, lead to co-operative behaviors. Feelings of involvement may also lead to greater satisfaction. Finally, commitment is expected to lead to various behaviors supporting the organization, such as decreased turnover, absenteeism, and grievances, and increased willingness to innovate, and the like. All of these factors, of course, are expected to lead to improved organizational performance.

INSERT FIGURE 1 ABOUT HERE

However, it should be noted that there are variables which may moderate these effects. For example, for motivation to occur, the individual must believe that his individual job performance will appreciably affect organizational performance. Similarly, for increased job effort to result from increased motivation, an individual must believe that he has the ability to improve his performance, and that the situation is not structured in such a way that increased job effort will not lead to improved performance, (for example, in an assembly line).

Several assumptions about the nature of what has been labelled "employee ownership" have been implicitly built into the model. Ownership is conceptualized in terms of private, not social ownership, and generally the model assumes that some financial investment is required by the individual to obtain ownership. No assumptions are made about the quantity of stock an individual must purchase for these effects to occur, although it does assume that all stock is common (voting) stock. The model is not explicit about what can be defined as employee ownership, and what degree or type of ownership is necessary to bring forth the predicted results.

At least two dimensions are necessary to define employee ownership: (a) the degree to which ownership is held within the enterprise and (b) the extent to which all employees share in the ownership. Thus, a "pure case" of employee ownership would involve ownership of one hundred percent of the firm's stock by the employees, with all of the employees participating in this ownership. Some would also add a third dimension: the extent to which employees participate equally in the ownership.

Since there are few cases of "pure" employee ownership in existence, particularly in North America, but an increasing number of cases of a substantial ownership by employees, employee ownership is best conceptualized as a continuous variable. Therefore, the model would predict stronger effects as the enterprise more closely approaches the "pure case" of employee ownership. These effects may not increase in a linear fashion, however, and at what point they become significant must be considered an empirical question , as is the question of how the various dimensions of ownership combine to produce these effects. For example, for the purposes of this model, would a case of ownership of 100% of the company by 60% of the employees be considered more or less "employee ownership" than ownership of 60% of the firm's stock by 100% of the employees?

If an arbitrary cutoff point is deemed practical, the following minimum criteria have been delineated elsewhere (Long, 1977). Employee ownership occurs when (a) the majority of voting stock is owned by current company employees (b) ownership is broadly distributed throughout the firm's employees (at least 30% of employees own stock) and (c) no employee group is systematically excluded from ownership.

It is important to recognize that in an employee ownership situation two conceptually separte phenomena may bear on the same dependent variables. Sometimes accompanying employee ownership is increased employee influence or participation is decision-making, which is also believed to have positive effects on employee job attitudes and productivity. Long (1978b) has empirically shown that both share ownership and participation in decision-making can have independent effects on a number of key job attitudes. In assessing the effects of any conversion to employee ownership, the extent to which the conversion has increased employee participation must also be considered.

METHOD AND RESEARCH SITES

The effects of conversion to employee ownership on job attitudes and organizational performance are assessed and compared at three companies for which data were available: a medium sized regional trucking firm located in western Canada, a knitting mill located in the northeastern United States and a firm manufacturing library furniture, also located in the northeastern U.S. They employ about 165, 120 and 200 persons, respectively, and the trucking company and the library firm are unionized.

Although employee ownership at all three of the cases developed within the past two or three years as a result of divestitures by larger corporations, the ownership structure is quite different at each of the three firms. The trucking company is wholly employee owned, the knitting mill is largely employee-owned (70%), and the library firm is partly employee owned (34%) and partly community owned. Within each firm, the proportion of employees (workers and managers) who owned some company sto at the outset was 70%, 60%, and 87%, respectively. However, due to a rapid

growth in employment at the knitting mill, this proportion declined to about 30% within several months after employee purchase. Of the stock held by organization members, 45% was held by non-managers at the trucking company, 15% by non-managers at the knitting mill, and 65% by non-managers at the library firm. Thus, at each firm, non-managers held 45%, 9.5%, and 22.1% of total company stock, resulting in an average holding by each non-managerial employee-owner of .52%, .43%, and .14%, respectively. The porportion of non-managers who owned company stock in each instance was about 62%, 25%, and 80%. These figures are summarized in Table 1.

INSERT TABLE 1 ABOUT HERE

Thus, the three firms can be arranged on a rough continuum on the ownership dimension, with the trucking company closest to the ideal, followed at some distance by the knitting mill, and then the library firm, which in fact, does not meet the criteria necessary to be classified as an employee owned firm, since employees do not hold a majority (51%) interest in the firm.

There are also significant variations in stock purchase and trading procedures across the three firms. At the trucking company non-employees are not permitted to purchase or retain company stock. An elaborate set of procedures designed to prevent stock from eventually concentrating in the hands of a few individuals or groups is also in effect. All employees are placed into one of four groups: senior, middle, and junior management, or non-management. Limits are placed on the number of shares that any individual in a given group may hold, and when shares become available they must first be offered to individuals in the same group as the seller. Employees holding little or no stock are given first opportunity to purchase available stock. These procedures have resulted

in a broad and dispersed ownership structure.

All stock carries voting and profit rights. Stock prices are established every two months by the company treasurer, based on a formula which considers asset value, financial performance, and seasonal fluctuations. The company treasurer also acts as an agent to facilitate transfer of stock from sellers to buyers, and regulates buying and selling in the light of the procedures described above.

At the other two firms procedures are generally much less regularized and restrictive. Non-employees are permitted to purchase and retain company shares, although the knitting mill is attempting to discourage this. There are no restrictions on buying or selling of stock. Market forces set the price of the stock at the knitting mill, while stock prices at the library firm have been held to their initial levels.

In terms of participation and control structure at the three firms, there are also substantial differences. The nine member board of directors at the trucking company is composed of two outside members, three senior managers, two truck drivers, and one each from middle and junior management. At theknitting mill the seven member board consists of two outside members, senior management, and one non-manager. The board of directors at the library firm is composed of outsiders and one or two senior managers. Board meetings are held monthly at the trucking company and about five times a year at the knitting mill.

In terms of information, at the trucking company, all shareholders receive a monthly profit and loss statement and report from the president, and all board members receive a complete set of financial statements prior to each monthly meeting. At the knitting mill no regularized system for

communicating with employee-owners has been established, while at the library firms a newsletter has been established.

Questionnaire and interview data indicated that at the trucking company, worker participation in job, departmental and organizational policy decisions has increased since employee ownership, while at the knitting mill worker influence has increased only slightly, mainly at the organizational policy level, and the library firm showed little or no change. Questionnaire data also indicated higher absolute levels of participation subsequent to employee purchase at the trucking firm in comparison with the knitting mill, with data for the library firm unavailable.

Several other differences between the three cases should be noted. The library firm and the knitting mill were both located in a similar geographic locale, which was experiencing difficult economic times, and an unemployment rate in excess of 13%, while the trucking company was located in an area with unemployment of less than half of that. The library firm and knitting mill located in small towns and employed long-time residents, who generally had a long period of service with the company, and, in short, few economic alternatives to employment with their present firms. At these two firms the work forces also tended to be much older than at the trucking firm.

Data collection at all three firms utilized questionnaire, interview, and field observation techniques. Further information on each of the three cases is available as follows (a) the trucking company (Long, 1977) (b) the knitting mill (Gurdon, 1978) and (c) the library firm (Hammer, 1978).

DATA ANALYSIS AND DISCUSSION

Two major types of data are discussed: interview and questionnaire data, and objective data.

Subjective Data

Comparisons were made of the job attitudes of worker-owners and non-owners at the trucking company and at the knitting mill, as displayed in Table 2. In both instances shareholders were found to be significantly higher in organizational integration and involvement, and satisfaction, than non shareholders. At the trucking company worker-owners were also significantly higher in organizational commitment. However, in terms of items reflecting motivation, no significant differences were found.

INSERT TABLE 2 ABOUT HERE

However, this does not necessarily indicate that employee ownership has not increased work motivation. It has been posited that ownership might enhance motivation both directly through enhancing the performance - reward contingency, and indirectly, through creating favorable group work norms. This second source of motivation would apply to non-shareholders as well as to shareholders, thus diminishing the difference in motivation expected between the two. This thesis is supported by other subjective data, which indicate more favorable work norms since employee purchase, and objective performance data, which indicate increased job effort since employee purchase.

These findings, based on questionnaire data, were also supported by interview data. At the trucking company, employees reported more conscientious work behavior, and higher levels of co-operation between

workers and managers and among workers. Higher levels of satisfaction were reported subsequent to employee purchase. There was also evidence of favorable group norms being enforced, as, in the words of a clerical employee (a non-stockholder), "every worker is looking to see if fellow workers are doing their jobs." In terms of organizational identification, there was evidence supporting the existence of all three sub-types. For example, several persons stated that, in the words of a driver, "everyone works together because we all have the same goal" (integration). Several employees reported, in the words of a clerical employee, "a feeling of pride and importance among employees" (involvement), and that "stockholders tend to stay longer in their jobs than otherwise" (commitment). To some extent similar results were reported at the knitting mill.

In comparing organizational identification at the two firms, it is interesting to note that worker-owners at both firms show high levels of organizational integration and involvement. Despite this, organizational commitment is low at the knitting mill, and worker-owners do not differ from other workers in this. At the trucking firm, in contrast, organizational commitment is much higher, and significant differences were found between worker-owners and non-owners. This may be caused by differences in the ownership structure: ownership of stock has proved to be a lucrative investment in both cases, but terminating employees at the trucking company would have to give up their stock; at the knitting mill they would not.

Another possible explanation for the high levels of integration and involvement but low levels of commitment among worker-owners at the knitting mill may be the lack of employment alternatives in the area. Gurdon (1978) found that those purchasing stock tended to be more strongly

attached to their geographic locale. Thus, although they might very well "take a similar job with another firm for a slight increase in pay",(commitment) they recognize that other jobs are not available, and that their welfare is tied to the welfare of the firm (integration) and that what happens to the firm is important to them (involvement).

When comparing a variety of attitudes at the two firms, it was found that they were generally much less favorable at the knitting mill. In addition, respondents at the knitting mill reported very small increases in their general satisfaction or in factors such as communication between managers subsequent to employee purchase; at the trucking firm larger increases were reported.

In order to test for the possibility the difference in attitudes between the two firms is due to the smaller proportion of employees who are owners at the knitting mill, shareholders at both firms were compared. Although share ownership was found to account for some of the difference, worker-owners at the knitting mill generally showed less favorable attitudes, including satisfaction and motivation, than those at the trucking firm. It is argued that the difference in employee participation in the two firms may account for a major part of the remaining difference.

Interview and other subjective data from the library firm indicated little appreciable change in job attitudes and employee behavior subsequent to employee purchase.

Objective Performance Indicators

Several objective measures of employee job attitudes and organizational performance were available for the periods prior to and subsequent to the ownership change. First, turnover data at the trucking company and the knitting mill indicate declines. At the trucking company turnover declined about 30%; at the knitting mill voluntary turnover had been quite low prior to

employee purchase (primarily due to poor alternative employment opportunities), about 3.9% annually, but did decline futher to about 1.7%. In the trucking company the decline took place almost entirely among the stockholders, who now have a turnover rate of less than one-third of that of the non-shareholders. This gives some indication that the difference in commitment between shareholders and non-shareholders indicated by the subjective data is a true one. At the library firm, turnover was quite low prior to employee purchase and has not declined.

As another behavioral measure of satisfaction, grievance rates were examined at the two unionized firms. At the trucking company, there were no grievances at all in the year following employee purchase, and one grievance the following year, in contrast to large numbers in previous years. At the library firm, however, union officials report no decline from the fairly substantial rate of grievances prior to employee purchase.

Several indicators of work motivation were avaiable at the trucking company. First, the amount of customer claims for freight damaged or lost, reflecting the care displayed by freight handlers and drivers, declined by as much as 60%. This higher quality of output man hour did not come at the expense of quantity of output --- pounds loaded per man hour increased by about 5%. At the knitting mill, scrap loss dropped from about 1.5% of net sales to about .25%, although part of this may be due to installation of some new capital equipment during this period.

In terms of overall organizational performance, the financial performance of each firm has improved since employee purchase. The trucking company and the knitting mill had suffered substantial losses prior to purchase; they have since become highly profitable. After two

years of employee ownership share prices had increased by 300% at the trucking firm, and 252% at the knitting mill. The library firm, which had been marginally profitable prior to purchase, has also shown an increase in profitability, although the results are not as dramatic. Part of this increase may be due to elimination of corporate overhead, however. Share prices are not allowed to fluctuate and therefore have not changed since purchase.

In general, then, these objective data are consistent with what would be expected on the basis of the subjective data presented earlier, and the conceptual framework.

SUMMARY AND CONCLUSION

The apparent effects of conversion to employee ownership varied considerably acorss the three cases, as summarized in Table 3. Although in none of the cases did negative consequences appear to result, the extent to which employee ownership was accompanied by beneficial consequences appeared to vary with degree of ownership and the extent to which traditional patterns of employee influence and participation in decision-making have changed subsequent to employee purchase. The favorable results predicted by the conceptual framework were most evident at the trucking company and least evident at the library firm.

INSERT TABLE 3 ABOUT HERE

Contextual factors may also have affected the results found here. For example, despite a fairly large difference between employee attitudes at the trucking company and the knitting mill, large differences in financial performance were not found. This may be because the internalized commitment and motivation which employee ownership is expected to produce are most important in situations where: (a) alternative sources of employment are readily available and (b) work is non-routine or cannot be closely supervised. These do not obtain at the knitting mill, and productivity can likely be improved despite a lack of attitudinal change. Other situations where employee ownership may be more effective in improving organizational performance is where labour costs are high, or where adaptability to change and innovation is important.

Thus, three major types of questions are important for future research to address: (a) what is the relative importance of various dimensions of employee ownership in affecting relevant dependent variables (b) how and under what conditions employee ownership is related to participation in decision-making and (c) what contextual factors moderate the relationship between ownership, job attitudes, and organizational performance.

FIGURE 1

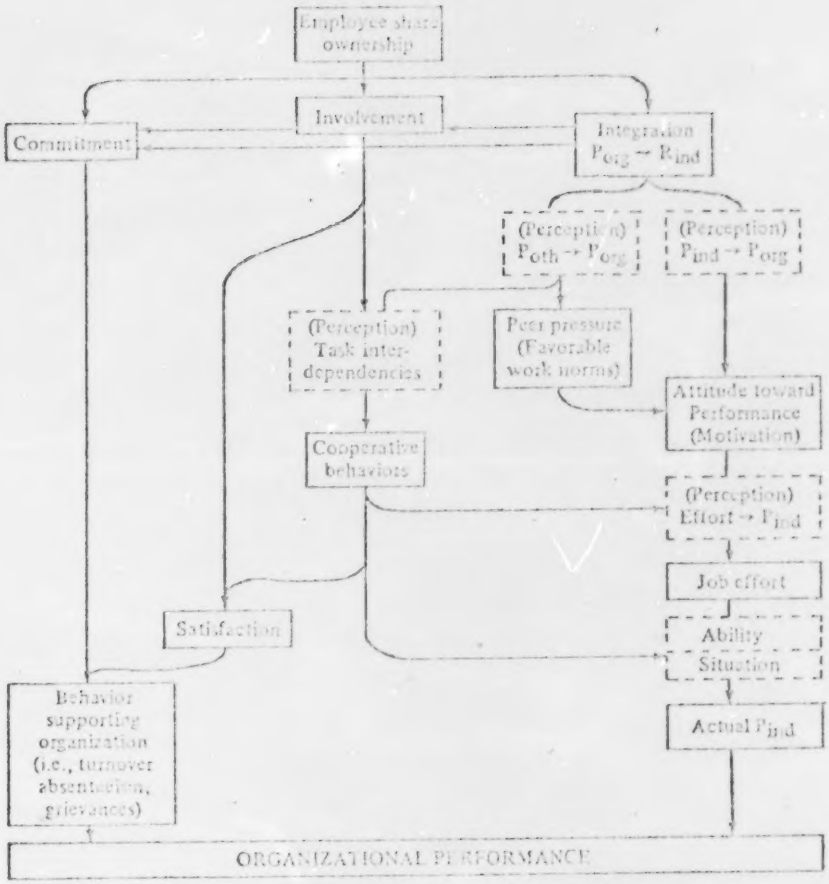

Fig. 1. Theoretical framework of effects of employee share ownership on organization performance. Boxes in broken lines represent moderating variables.

Note: P_{org} = Organizational performance

P_{ind} = Individual performance

P_{oth} = Performance of others

R_{ind} = Individual reward

TABLE 1

Comparison of Ownership Structure
at Three Employee Owned Companies

	Trucking Company	Knitting Mill	Library Firm
Proportion of shares held within firm	100 %	70 %	34 %
Proportion of employees owning stock	70 %	30 %	87 %
Proportion of internal stock held by non-managers	45 %	15 %	65 %
Proportion of total company stock held by non-managers	.52%	9.5 %	22 %
Average proportion of total stock held by non-managerial shareholders	.52%	.43%	.14%
Proportion of non-managers holding stock	62 %	25 %	80 %

TABLE 2

Comparison of Job Attitudes of Worker-Owners and Non-Owners, Trucking Company and Knitting Mill

	Trucking Company					Knitting Mill				
	Shareholders n = 41		Nonshare n = 18			Shareholders n = 22		Nonshare n = 71		
	Mean	σ	Mean	σ	p<	Mean	σ	Mean	σ	p<
Integration	5.32	1.16	4.42	1.22	.01	5.26	1.35	4.76	1.53	.05
Involvement	5.93	.76	4.67	1.24	.001	5.77	1.41	4.59	1.66	.00
Commitment	5.90	.94	4.78	1.59	.01	3.45	2.15	4.07	1.78	N.S
General Satisfaction	5.93	.89	5.46	.85	.05	5.19	1.29	4.49	1.56	.05
Motivation	5.36	1.02	5.20	1.15	N.S.	4.12	2.06	3.66	1.80	N.S

TABLE 3

Tabular Summary of Findings

	Trucking Company	Knitting Mill	Library Firm
Degree of employee ownership	High	Moderate to Low	Low
Change in traditional influence relationships	Moderate	Moderate to Low	Low
Job Attitudes	Considerable Improvement	Some Improvement	Little Change
Turnover	Down	Down	Little Change
Grievance Rates	Down Sharply	N/A	No Decline
Worker Performance	Up	Up	N/A
Profitability	Up Sharply	Up Sharply	Up Somewhat
Share Price	Up 300%	Up 252%	No Change

N/A = Not applicable or not available.

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